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SUBJECT: TOURISM UPDATE FOR 2003

1. SUMMARY. Led by cruise ship arrivals, particularly to the Family Islands, overall tourism arrivals to The Bahamas increased in 2003 for the fifth consecutive year. However, there was a downturn in hotel room revenues and arrivals to Grand Bahama also declined slightly. After highly contentious negotiations, the tourism industry recently concluded a major a 5-year contract for tourism workers. The Ministry held the first annual National Tourism Conference in an effort to inform tourism officials about changes in the industry and to strategize on keeping The Bahamas competitive. END SUMMARY.

TOURISM YEAR END 2003 STATISTICS

2. In 2003, tourism arrivals for the entire Bahamas increased to 4,594,042 up from 4,405,971 in 2002. However, hotel room revenues for the entire Bahamas fell by 4.8 percent in 2003 compared to 2002 levels, dropping to 317 million dollars from 333 million dollars in 2002.

3. Overall average daily room rates for 2003 increased by 5.1 percent to 163.97 dollars over 155.97 dollars in 2002. The average room occupancy level stood at 59.6 percent for 2003 compared to a 62 percent for 2002.

4. The Nassau/Paradise Island hotel industry represented 268 million of overall room revenues for the first 11 months in 2003, with an average daily room rate of 187.68 dollars and an average occupancy level of 66.7 percent. Both figures fell short of 2002 levels.

5. In 2003, Grand Bahama generated 35 million dollars in room revenues, with an average daily room rate of 83.95 dollars -- an increase of 3.1 percent over 81.46 dollars in 2002. The average occupancy level for 2003 stood at 48.5 percent -- a decrease of 6.3 percent over 2002 levels.

6. Room revenues in the Family Islands fell 10.1 percent from 15 million dollars in 2002 to 13 million dollars in 2003. Average room rates stood at 160.74 dollars, only a slight decrease over the 2002 level. Occupancy levels increased slightly to 35.3 percent.

CHALLENGES AND OPPORTUNITIES FACING THE TOURISM INDUSTRY

7. The Ministry of Tourism held its first Annual Bahamas Tourism Conference during the week of January 26 to discuss challenges and opportunities facing the tourism industry. The Director General of Tourism Vincent Vanderpool-Wallace said that the Ministry's target is to attract five million visitors to The Bahamas, and increase tourism spending to 2 billion dollars per year by 2005. Some of the challenges facing The Bahamas that he discussed include: the relatively high cost of flights to The Bahamas; attracting the best and brightest Bahamian talents into the industry, and increasing hotel occupancy. The Ministry also has to tackle the many complaints by visitors about the high price of the destination; uncleanliness of the islands, and the request for more guided tours.

8. A special guest speaker at the conference, marketing expert Dr. Peter Yesawich, conference attendees of schemes that would make The Bahamas seem "fresh" to American travelers. He noted that revamping the Nassau International Airport is only the first step The Bahamas must take in order to keep its product "fresh." Yesawich said that there is a growing interest among Americans for family vacations and weekend travel, which is a good market for The Bahamas to target. He also suggested that The Bahamas reach out to weekday vacationers. Instead of complaining about "slow months" in the tourism industry, he suggested that the country build a convention center. He further stated that The Bahamas should exceed visitor expectations through exceptional experience and service and fortify and sustain visitor arrivals through marketing and promotion. He emphasized that most Americans are looking for something

different when searching for travel destinations and that The Bahamas should promote diversity by highlighting its uniqueness and combining it into the visitor's experience.

HOTEL UNION CONTRACT SIGNED

9. After 16 months of contentious negotiations, leaders of the Bahamas Employers Association, The Bahamas Hotel and Allied Workers Union and the Minister of Labor finally signed a 17 million dollar, five-year industrial agreement for hotel union employees on January 29. The contract provides for an across-the-board increase in salaries for hotel workers retroactive to January 7, 2003, and is valid to January 7, 2008. The 16-month contract negotiations have been the longest in the history of negotiations between the two bodies. Additionally, the extended negotiation process resulted in a targeted "slowdown" during the December visit of South African President Tabo Mbeki, which caused great embarrassment to Prime Minister Perry Christie.

10. As a result of the long negotiation period and the labor unrest experienced during this time, the Prime Minister announced plans to review labor laws in order to avoid future disruptions in the tourism sector, which generates 40-60 percent of GDP. The government is considering the Barbados Protocol Four as a model. The Protocol is aimed at ensuring the resolution of industrial issues without causing disruption to the economy.

11. Hotel Union President Pat Bain has, however, stated that the union resents the position taken by the government regarding changes to the labor laws and said that such changes would be met with "strong and endless" resistance. Bain further stated that whoever is entertaining such a thought is moving in the wrong direction. Mr. Bain noted that the union believes that all laws should be progressive and not regressive, nor should laws be changed as a reaction to unions exercising their legal right. He stressed that labor laws should not be made without consultation with all social partners.

ATLANTIS - THE ANCHOR FOR THE BAHAMIAN TOURISM INDUSTRY

12. Kerzner International's Atlantis Resort continues to be the anchor for the Bahamian tourism industry. Kerzner reported a net income of 3.0 million dollars for the 2003 fourth quarter, compared to a net income of 0.9 million dollars for the same period in 2002. Adjusted net income for the quarter was 4.8 million dollars compared to 4.4 million dollars in 2002. Adjusted net income per share for the quarter was 0.16 dollars as compared to 0.15 dollars achieved in 2002. Butch Kerzner, Chief Executive Officer of the company, said that in 2003 they combined strong earnings performance with major future growth initiatives. During the 2003 fourth quarter, Atlantis achieved an average occupancy rate of 73 percent with a 218 dollar average daily room rate, compared to an average occupancy of 72 percent and average daily room rate of 216 dollars during the same period in 2002. The company expects its average room rate to increase this year by an additional 3 percent for selected visitors. The high occupancy levels it is currently experiencing bode well for this prediction.

13. COMMENT: The tourism industry is expected to remain stable, but sluggish throughout the year. The Ministry of Tourism has much work to do, however, to maintain its competitive edge in the industry. Given the slow pace that the government is moving to launch plans for the refurbishment of Nassau International Airport, it is unlikely this major project will be completed in order to coincide with the scheduled completion of Atlantis Phase III by the end of 2005, unless Kerzner also delays his project start date. END COMMENT.

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